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Andrii Pin,

*PhD Student department of International economics
Ternopil National Economic University,
st. Lvivska, 11, Ternopil city, 46000, Ukraine
Rockgorn@gmail.com*

THE EFFECTS FOREIGN FINANCIAL RESOURCES HAVE ON SOCIAL AND ECONOMIC WELL-BEING

Annotation. The research paper addresses effects foreign debt financing has on social and economic wellbeing. It is suggested that social and economic wellbeing constitutes wellbeing, which is a general term for mental, physical, economic and social wellness. Social and economic wellbeing is proven a complex hardly measurable phenomenon, since there are a number of qualitative features contributing to thereof. Foreign debt financing may have positive effects on social and economic wellbeing, at least this is the case for the short-run perspective. Injection of foreign financial resources in the form of loans or funds raised by issuing debt securities may provide enough stimuli for an economy to gain momentum. Apart from focusing on economic growth it is reasonable to pave the way for qualitative economic and social development. The current trends towards a downward increment in household real income and weakening productivity show that there is a need for revising strategies oriented to economic growth. To ensure that foreign financial resources have favorable effects on social and economic wellbeing it is reasonable to encourage green technologies and renewable energy concepts.

Key words: *foreign debt financing, social and economic wellbeing, external debt, sustainable development, wellness.*

Introduction

High level of social and economic well-being is a must have objective of a country's strategy for economic and social development. As a matter of fact, social and economic well-being constitutes well-being at large, a general term encompassing the condition of an individual or a social group in terms of mental, physical, economic, and social wellness. Well-being is a complex hardly measurable phenomenon, since

adesirability sense of accomplishment and satisfaction varies greatly due to subjectivity. Although a certain level of well-being is rather the function of subjective estimation rather than a constant, social and economic well-being can be evaluated and monetized to a certain extent. Material welfare and income, including social benefits, represent monetary value of wellbeing. However, access to drinking water, environmental contamination, the fraction of enterprises promoting green technologies and renewable sources of energy constitute rather a qualitative measure of economic and social well-being and thus are hardly likely to be measured in monetary value. Nevertheless, ceaseless enhancement of social and economic well-being is by no means the core of a country's economic development strategy.

To provide for wellbeing, especially in the long-term perspective, strategy-makers ought to rummage through an up-to-date economic basis seeking ways and means of encouraging priority industries to secure sufficient amount of income in the long-run. Since social and economic wellbeing chiefly depends on income, the rate of return on investments or human capital, it is reasonable to contemplate loan financing to provide a stimulus to economic growth. Although there is no a constant cause-effect relationship between an increase in economic growth and a boost to wellbeing, economic growth, should strategy-makers take a judicious approach underpinned by elaborate analysis, may pave the way for multifaceted development, including social advance, aggressive promotion of green technologies and renewable energy and economic sustainability. Since domestic loan financing is a relatively harmless type of debt for there is merely redistribution of capital and derivative income within an economy, foreign loans seem to constitute a potential threat to sustainable economic future. On these grounds, foreign debt financing is highly likely to have effects on social and economic wellbeing.

Literature review. There is a long-standing debate over the necessity of engaging in foreign debt financing. The nature of loans underlies free international capital flows, market-economy based phenomenon obeying the law of supply and demand for financial resources. However, inadequate allocation of involved financial resources alongside of poor debt management catalyze unfavorable economic conditions at large and debt overhang in particular [1, p. 271]. Debt overhang is associated with under-investment, since financial distress undermines profit motive [2, p. 2.]. Proceeds from new investments inextricably converts into debt repayments instead of equity. Debt overhang demonstrates negative effects on capital formation on account of excessive capital outflow [1, p. 272]. For developing economies, which are in constant need of substantial investment to develop infrastructure and priority industries, foreign loan financing is highly likely to boost economic growth [3, p. 275]. The reason of developing countries favoring foreign loans is that they lack capital and access to thereof to foster economic growth [4, p. 135]. However, foreign loans have positive effect on economic growth to a certain extent going beyond the range of which by accumulating additional debt has unfavorable effects on the economy [5]. Overall,

the research studies on effects foreign loan financing has on economic growth show ambiguity of these effects. However, the research studies seem to overlook effects foreign financing has on social and economic wellbeing, which is dependent of other factors apart from economic growth.

Purpose and goals. The aim of the paper is to provide an insight into effects foreign debt financing has on social and economic wellbeing. In pursuit of fulfilling the purpose of this research paper, several goals have been set and can be defined as follows:

Methodology. The theoretical pillar of the current research paper consists in the views of prominent economists investigating the matter of debt and related issues. The statistical data for analysis derives from the data repositories of official institutions. The methodological approaches applied in the research paper for the attaining the purpose and achieving accompanying goals include customary methods of obtaining knowledge such as observation, analysis, synthesis, comparison, deduction and induction.

Results. Foreign debt financing is the beginning of a linked series of events leading to the formation of external debt. Being a structural element of a country's national debt, an external debt bears more menace to financial and economic stability than the liabilities of government to its residents. The very definition of an external debt refers to financial debt or obligation a resident owes a nonresident usually as a result of certain business operations [4, p. 132]. At this point, the most important aspect of an external debt is that in case of insolvency capital movement adopts a procyclical feature, hence value leaves an economy in the time the latter requires it at most.

An increase in the volume of external debt has ambiguous effect on an economy. The ability of an economy to generate sufficient added value in parallel with sustaining sensible fiscal and monetary policy improves its creditworthiness so that international organizations and non-residences across all economic sectors build their confidences in the economy's ability to discharge its liabilities. Should the rate of return on investment demonstrate an upward trend, the pressure associated with external debt service becomes less intensive and domestic savings rates edge up under such favorable conditions reducing the need for foreign loan financing. Despite high levels of gross external debt worldwide, especially among developed nations, the world economy demonstrates upward trends in economic activities.

An increase in economic activities commenced in 2016 and to the mind-2017 the upward trend converted into noticeable buoyancy of the economy in the global dimensions [6, p. 134]. In particular, developed countries and China demonstrated a perceptible increase in domestic aggregate demand. The chain of causation, which originated in the countries above led to economic revival in developing economies. Of particular importance is the fact that increase in consumption was followed by the buoyancy of interment activities,

which reasonably fostered output and real sector at large across the world.

The aggregate demand increased faster in developed countries in the first half of 2017 compared to the same period of 2016. In the United States, the weakening of domestic consumption in the first quarter of 2017 turned out to be a temporary event, since expanding investment activities fostered the aggregate demand of the country and have an incentive to economic revival of the energy sector of the U.S. economy [7, p. 45]. For Euro zone and Japan, strong consumption, investment activities and demand for exported goods constituted a driving force of the buoyancy of the economy in the first half of 2017 [7, p. 34]. Economic growth in the rest of developed countries excluding the United States remarkably intensified in the first half of 2017 as a result of an increase in domestic demand and demand for exported goods [6, p. 120].

When it comes to emerging and developing economies, it is worthwhile indicating that the buoyancy of the economic activities in those countries, especially perceptible economic revival China and another key developing economies demonstrated, made a significant contribution to the pace of global economic growth in the first half of 2017 [6, p. 124]. However, among emerging and developing economies there are growth inhibitors, which slowed down the global economic revival. For instance, India seems to have demonstrated the worst pace of the buoyancy of the economy in the first half of 2017. The implementation of new tax reforms is considered to have hampered the pace of the economic growth of Indian economy. On the contrary, Brazil managed to considerably increase the volume of export and slow down the weakening of the domestic aggregate demand that equaled to an impulse strong enough to revive economic growth for the first time in the first quarter of 2017 after the eight quarters of economic decline [6, p. 78]. The global economic revival also had favorable effects on Turkish and Russian economies [6, p. 90].

The buoyancy of economic activity worldwide has positive effects on external debt dynamics, for the increment in economic growth improves solvency and liquidity and thus creates favorable conditions for foreign creditors to offer their loans. The upward trend of economic activity provides for better economic and financial opportunities an individual economy can utilize, reducing dependence on foreign loans and enabling service the external debt without resorting to an austerity measure.

However, despite of the buoyancy of the economy across the world it is well worth pointing out slowdown in the increment of household real income (fig. 1). There is no denying that household real income directly affect access to social services, affordability of goods and services and quality of life at large. Degenerating quality of life caused by staggering increment in real income, the exact amount of money an individual receives to live on, impairs not only social and economic well-being, but wellbeing at large in the long-run. A decrease in real income reduces consumption and savings, leading to aggregate demand shrinkage, reduction of tax revenue and savings ratio.

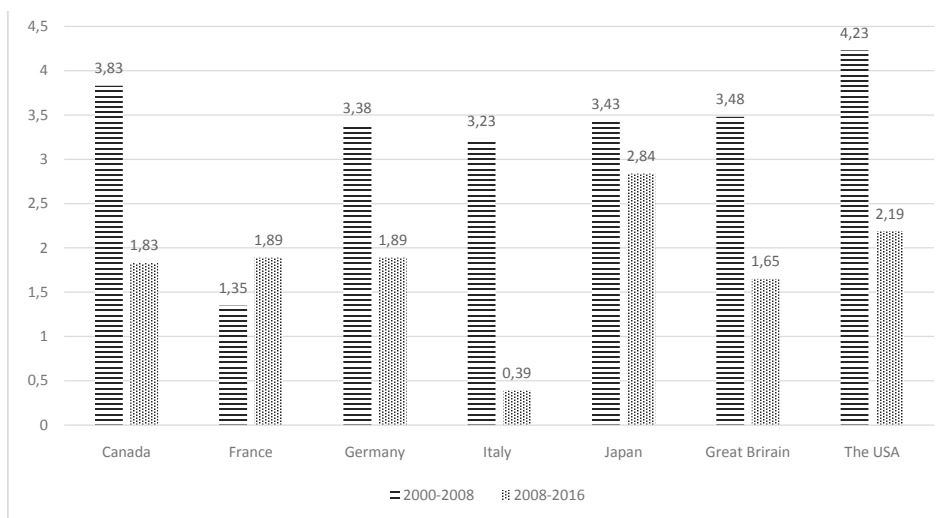


Fig. 1. The compounded average annual growth rate of the increment in the real income of the households of the G7 economies

Sources: created by the author on the basis of the OECD data [8]

The fig. 1 demonstrates the slowdown of the increment in the real income of the households attributing to the G7 countries before and after the 2008 world financial crisis. This tendency undoubtedly has negative effects on household wealth accumulation. In the pre-crisis period of 2000-2008 the average increment in world wealth amounted to 9,5%, meanwhile the post-crisis period of 2008-2016 show that this indicator halved, taking up the position of 4,5% [7, p. 45]. To add insult to injury, the developed countries, including the G7 economies, are facing weakening productivity. Such an unfavorable tendency may convert into an economic decline. A decrease in productivity will further reduce real income and thus undermine social and economic well-being. Furthermore, although the developed countries, including the G7, have reduced the amount of the gross external debt [9], it is reasonable to assume that the post-crisis real income shrinkage and ending-down productivity are hardly likely to make up for reduced dependence on foreign debt financing.

Discussion. Social and economic wellbeing is heavily dependent of the real income and external debt position of an individual economy. A decrease in the increment in household real income demonstrates that there is a threat to the long-term social and economic well-being. Drawing upon the results of this research it is reasonable to make a case for reformatting economic development strategies, especially fiscal and monetary policies. There is no denying that succeeding in alleviating pressure, which was caused by external debt, is an undisputable achievement preventing individual economies from unnecessary austerity measures in case of economic decline. However, downward increment in real income alongside with weakening productivity are highly likely to reduce social and economic wellbeing across social classes. Tax increase and additional debt financing, including foreign loans, may

take place to ensure that the government manage to budget for needs of the social sector at full value.

Foreign debt financing may have positive effects on social and economic wellbeing, at least this is the case for the short-run perspective. Injection of foreign financial resources in the form of loans or funds raised by issuing debt securities may provide enough stimuli for an economy to gain momentum. Apart from focusing on economic growth it is reasonable to pave the way for qualitative economic and social development. For instance, upgrading infrastructure by implementing both development programs on renewable energy and green technologies and reforms to encourage thereof is hardly likely to provide a short-term boost to economic growth. However, environmentally friendly technologies improve qualitative features of an economy, increasing the quality of life at large. Moreover, such technologies are associated with cost-efficiency, which has strong positive effects on social and economic wellbeing.

Conclusions. Foreign debt financing is a reasonable way of maintaining and further improving social and economic wellbeing. The current trends toward downward increment in real income and weakening productivity show that there is a need for revising strategies oriented to economic growth. To ensure that foreign financial resources have favorable effects on social and economic wellbeing it is reasonable to encourage green technologies and renewable energy concepts. Since the world economy is fossil fuel based, increasing the fraction of renewable energy involved in manufacturing will considerably reduce prime cost, hence productivity rate will demonstrate an upward trend.

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Андрій Михайлович Пінь,
*аспірант кафедри міжнародної економіки,
Тернопільський національний економічний університет
вул. Львівська, 11, м. Тернопіль, 46000, Україна
Rockgorn@gmail.com*

Вплив залучених зовнішніх фінансових ресурсів на суспільний добробут

Анотація. Охарактеризовано вплив залучених зовнішніх іноземних кредитів на соціальний та економічний добробут. Аргументовано, що соціальний та економічний добробут є складовою частиною суспільного добробуту, який охоплює психічний, фізичний, економічний та соціальний добробут. Підтверджено, що соціальний та економічний добробут є складним феноменом, оскільки включає широкий спектр якісних характеристик. Залучення зовнішніх кредитних ресурсів позитивно впливає на соціальний та економічний добробут у коротко-строковій перспективі. Вливання іноземних фінансових ресурсів у формі кредитів та коштів, отриманих шляхом емісії боргових цінних паперів, достатньо стимулюватиме відновлення економічного зростання. Для досягнення соціального та економічного добробуту концепція економічного зростання має бути замінена якісним соціально-економічним розвитком. Сучасні тренди низхідного приросту реального доходу домогосподарств та послаблення продуктивності потребують перегляду стратегій розвитку, які базуються на економічному зростанні. Варто залучати зовнішні фінансові ресурси для розвитку «зелених» технологій та відновлювальної енергетики для реального покращення соціального та економічного добробуту.

Ключові слова: залучені зовнішні фінансові ресурси, соціальний та економічний добробут, зовнішній борг, сталий розвиток, суспільний добробут.

Андрей Михайлович Пинь,
*аспірант кафедры международной экономики,
Тернопольский национальный экономический университет
ул. Львовская, 11, г. Тернополь, 46000, Украина
Rockgorn@gmail.com*

Влияние привлеченных внешних финансовых ресурсов на общественное благосостояние

Аннотация. Охарактеризовано влияние привлеченных внешних иностранных кредитов на социальное и экономическое благосостояние. Аргументировано, что социальное и экономическое благосостояние является составной частью общественного благосостояния, который охватывает психическое, физическое, экономическое и социальное благополучие. Подтверждено, что социальное и экономическое благосостояние является сложным феноменом, поскольку включает широкий спектр качественных характеристик. Привлечение внешних кредитных ресурсов положительно влияет на социальное и экономическое благополучие в краткосрочной перспективе. Вливание иностранных финансовых ресурсов в форме кредитов и средств, полученных путем эмиссии долговых ценных бумаг, достаточно стимулирует восстановление экономического роста. Для достижения социального и экономического благосостояния концепция экономического роста должна быть заменена качественным социально-экономическим развитием. Современные тренды нисходящего прироста реального дохода домохозяйств и ослабление производительности нуждаются в пересмотре стратегий развития, основанных на экономическом росте. Стоит привлекать внешние финансовые ресурсы для развития «зеленых» технологий и возобновляемой энергетики для реального улучшения социального и экономического благосостояния.

Ключевые слова: привлеченные внешние финансовые ресурсы, социальное и экономическое благосостояние, внешний долг, устойчивое развитие, общественное благосостояние.